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ABSTRACT

This audit report examines the use of advance accounts for small purchases by the State University of New York (SUNY) campuses and the Central System Administration Unit's Business Office. It notes that, in addition, SUNY uses the Quick Pay voucher process to pay many of its small expenses. The audit found that funding levels for advance accounts should be reduced and that the majority of advance accounts may no longer be necessary, due to the utilization of other funding mechanisms such as Quick Pay. Many of the campuses are not making full use of the more efficient and economical method of Quick Pay for payment. The audit also found that advance account payments were generally made in accordance with guidelines of SUNY and the Office of the State Comptroller (OSC). It also found, however, that most of the SUNY campuses do not periodically review the funding levels or the need for advance accounts as the OSC guidelines require. The auditors recommend that SUNY maximize the use of Quick Pay and that SUNY review all advance account funding levels regularly and return all unnecessary advance amounts to the State Treasury. The report also contains the response of SUNY officials agreed which was in agreement with the recommendations of the audit. (PRW)

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State of New York
Office of the State Comptroller

Division of Management Audit

Report 95-S-128

Dr. John W. Ryan
Interim Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Dear Dr. Ryan:

The following is our audit report on the State University of New York's Use of Advance Accounts.

This audit was performed pursuant to the Comptroller's Authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. Major Contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit

November 4, 1996

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Executive Summary

State University Of New York
Use Of Advance Accounts

Scope of Audit

The State University of New York (SUNY) has 29 State-operated campuses and five statutory colleges, which are operated under contracts with a private university. SUNY campuses, as well as the Central System Administration Unit's Business Office, use advance accounts for small dollar purchases with a quick turnaround for payment. The fund custodian at each SUNY location is responsible for the advance account and submits a special charge reimbursement voucher to the Office of the State Comptroller (OSC) when the account needs to be replenished. As of August 1995, there was $3 million in SUNY advance accounts. Over $20 million in expenditures were processed through these accounts in the 1994-95 fiscal year.

In addition to advance accounts, SUNY uses the Quick Pay process to pay many of its expenses. Under Quick Pay, agencies may enter voucher information for purchases up to $1,000, and for travel up to $250, on-line to the OSC Central Accounting System for payment. Quick Pay was created in 1991 to allow State agencies to increase their efficiency in processing high volume, low dollar invoices. Quick Pay offers State agencies the opportunity to increase efficiency by decreasing the need for commitment of State monies to fund advance accounts, by reducing check writing and account reconciliation activity at the agency level, and by increasing the availability of payment data to track costs. For these and other reasons, Quick Pay is the preferable way for making small dollar purchases. For the State fiscal year ended March 31, 1995, the 31 SUNY locations we audited processed over $65 million in expenditures through Quick Pay.

Our audit addressed the following questions relating to SUNY's use of advance accounts:

- Are funding levels for advance accounts appropriate?
- Is Quick Pay fully utilized in lieu of advance accounts when it is appropriate to do so?
- Are advance accounts used properly?

Audit Observations and Conclusions

We found that funding levels for advance accounts should be reduced and that the majority of advance accounts may no longer be necessary, primarily due to opportunities to utilize other funding mechanisms such as Quick Pay. In addition, many of the campuses are not fully utilizing

Quick Pay, even though it is a more efficient and economical method of payment than advance accounts. We also found that, with a few exceptions, advance account payments generally were made in accordance with OSC and SUNY guidelines.

OSC guidelines require that agencies periodically review the need for advance accounts. If the accounts are no longer needed or if the funding levels could be reduced, then the agencies should remit the monies to the State Treasury. We found that most of the SUNY campuses do not periodically review the funding levels or the need for advance accounts. (See pp. 4-6)

SUNY officials state that advance account funding levels have been reduced by almost $600,000 from December 1993 to December 1995. However, we found that advance account funding levels could be significantly further reduced as the need for these accounts has diminished. We estimate advance accounts are currently over-funded by at least $800,000. In addition, the Office of the University Auditor reported that advance accounts used for the Educational Opportunity Program (EOP) may no longer be necessary. There had been $820,000 in the EOP advance accounts. Based on our findings, we conclude that the need for advance accounts is greatly reduced. Having these funds in the State Treasury, as opposed to a number of campus locations, reduces control risk to a minimum. (See pp. 4-6)

Regarding the use of Quick Pay, we found a wide range in the use of this payment mechanism among SUNY locations, indicating it can be used more often at many campuses. For example, the Purchase and Maritime campuses do not use Quick Pay at all while others can use it more extensively. (See pp. 6-7)

We recommend that SUNY maximize the use of Quick Pay for all eligible payments. SUNY should review all advance account funding levels regularly and return all unnecessary advance amounts to the State Treasury.

Response of SUNY Officials to Audit

SUNY officials generally agree with our recommendations. They indicate that they have reduced advance account funding levels and increased the use of Quick Pay over the past two years. They have also negotiated an increase in the Quick Pay limit which will increase SUNY's usage of Quick Pay.

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Major Contributors to This Report

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Response of SUNY Officials to Audit

Introduction

Background

The State University of New York (SUNY) is one of the largest higher education systems in the nation. Its teaching, public service and research mission is conducted by 29 State-operated campuses and 5 statutory colleges, which are operated under contracts with a private university. A 16-member board sets SUNY policy, and a Central System Administration Unit (System Administration) provides direction and leadership for the SUNY system.

Advance accounts are established from money appropriated to an agency. They are intended for small dollar purchases with a quick turnaround for payment. All SUNY advance accounts are maintained in banks located near each of the campuses. SUNY locations usually allocate these funds to accommodate different types of expenses such as: merchandise purchases, travel, intercollegiate athletics, library, and the Education Opportunity Program. As of August 1995, there was $3 million in SUNY advance accounts. Over $20 million in expenditures were processed through these accounts in the 1994-95 fiscal year. Office of the State Comptroller (OSC) and SUNY guidelines limit individual expenditures from advance accounts to $250. Historically, OSC has permitted SUNY to exceed that limit for travel payments processed through advance accounts so that SUNY employees could be reimbursed on a more timely basis. Advance account funds are replenished when the fund custodians submit a special charge reimbursement voucher to OSC. OSC bulletins and accounting procedures require advance accounts to be reduced when advance account activity has decreased or the need for such funds ceases to exist.

The Quick Pay program is an alternative to processing small dollar payments through advance accounts. The Quick Pay program was created in 1991 to allow State agencies to increase their efficiency in processing high volume, low dollar invoices. Under Quick Pay, agencies may enter voucher information for purchases up to $1,000, and for travel expenses up to $250, on-line to the OSC Central Accounting System for payment. In addition to Quick Pay, New York State will be piloting a Procurement Card program in 1996. This program will allow authorized SUNY employees to use credit cards to make purchases of up to $500. Both of these payment mechanisms offer State agencies the opportunity to increase efficiency by decreasing the need for commitment of State monies to fund advance accounts, reducing check writing and account

reconciliation activity at the agency level, and increasing the availability of payment data to track costs

Audit Scope, Objectives and Methodology

We audited SUNY's use of advance accounts for the two years ended August 31, 1995. The primary objectives of our audit were to determine whether: funding levels for advance accounts are appropriate; Quick Pay was fully utilized in lieu of advance accounts when it was appropriate to do so; and advance accounts were used properly.

To accomplish our objectives, we sent a questionnaire to the System Administration's Business Office and to 30 SUNY campuses that use advance account. The questionnaire concerned use of advance accounts and applicable internal controls. We reviewed financial records pertaining to advance account funding levels and utilization of advance accounts and the Quick Pay system for each of the 31 locations. In addition, we performed audit survey work at the SUNY campuses at Purchase and the Health Science Center at Syracuse. We also performed detailed audit testing at four SUNY locations: System Administration's Business Office, and the campuses at Potsdam, Morrisville and Binghamton. In addition, at the six sites we visited, we interviewed SUNY officials and reviewed applicable policies, procedures, rules and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those SUNY operations which are included within our audit scope. Further, these standards require that we review and report on SUNY's internal control structure and compliance with those laws, rules and regulations that are relevant to SUNY's operations that are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures that we consider necessary in the circumstances. An audit also includes assessing the estimates, judgements, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that

may be relatively efficient and effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvements and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

We identified no material weaknesses and no significant instances of noncompliance with relevant laws, rules and regulations. However, we identified certain weaknesses in the controls relating to the use of Quick Pay at SUNY campuses and advance account expenditures at SUNY at Purchase. Correcting these weaknesses will increase SUNY's operational efficiency and ensure that all expenditures are appropriate.

Response of SUNY Officials to Audit

A draft copy of this report was provided to SUNY officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Use of Advance Accounts

OSC's guidelines require that agencies periodically review the need for advance accounts. If the accounts are no longer needed or if the funding levels could be reduced, then the agencies should remit the monies to the State Treasury. We found that most of the SUNY campuses do not periodically review the funding levels or the need for advance accounts. Based on the current level of activity, we estimate that the SUNY advance accounts are over-funded by at least $800,000. In addition, the Office of the University Auditor reported that advance accounts used for the Educational Opportunity Program (EOP) may no longer be necessary. There had been $820,000 in the EOP advance accounts. As a result of maintaining excessive balances in the accounts, the State is not able to earn interest on funds which could be in the State Treasury. Also, having these funds in the State Treasury as opposed to a number of campus locations, reduces control risk to a minimum.

In addition, many of the campuses are not fully utilizing the Quick Pay program, even though it is a more efficient and economical method of payment than advance accounts. Based on our findings, we conclude that the need for advance accounts is greatly reduced.

Advance Account Funding Levels

OSC bulletins A-335 and A-365 direct agencies to review advance amounts and reduce them accordingly when using Quick Pay. According to OSC records, SUNY began using Quick Pay to process payments in State fiscal year 1991/92. Since that time, the use of Quick Pay at the 31 locations we reviewed has risen from about $734,000 to over $65 million in fiscal year 1994/95. However, OSC records also show that advance account funds have not been reduced accordingly.

We found that advance accounts are over-funded because SUNY locations do not effectively review fund levels. In their response to our questionnaire, officials at 11 sites told us they do not review the adequacy of advance account fund levels. Of the 20 locations where officials told us they do perform reviews, few could document that these reviews actually occurred, and all advance accounts at these locations were over-funded according to our analysis. Of the sites we visited none monitored fund balances, as required by OSC. They stated that although the Office of the University Controller regularly distributes OSC Bulletins to SUNY locations, they were unaware of OSC direction on this issue.

We also found some inconsistent direction from SUNY System Administration concerning advance accounts. In September 1991 the State Comptroller issued a bulletin which explained that Quick Pay can benefit State agencies as an alternative to the petty cash process. However, in a supplement, issued May 1992, to OSC bulletin A-289, the Office of the University Controller cites concerns that use of Quick Pay may cause advance account levels to be reduced and encourages the use of advance accounts whenever possible. In addition, a March 1993 memorandum from the University Controller's Office again raised these concerns and encouraged campuses to use advance accounts for all transactions under $250. On the other hand, SUNY officials informed us that the University Controller's Office spends a great deal of time and effort educating and training the campuses on the use of Quick Pay. They state that this is a major reason for the dramatic increase in the use of Quick Pay. However, other than the supplements issued in 1992 and 1993, there has been no formal written instructions provided to the SUNY campuses regarding the use of Quick Pay. The fund custodians at Morrisville and Potsdam told us they process all payments of $250 and under through advance accounts because of the direction from the SUNY Controller's Office.

We analyzed SUNY's advance account funding levels at the 31 locations by reviewing the use of those accounts over the last year of the audit period. We discussed our analytical approach with the fund custodians at the six sites we visited. They generally agreed with our methodology. We estimate SUNY advance accounts, excluding EOP advance accounts, are currently over-funded by at least $800,000. Two of the locations we visited indicated they already remitted their excess funds to OSC. In fact, with the exception of those monies used to operate intercollegiate athletics, which we found to be necessary but also over-funded, advance accounts may no longer be necessary.

Educational Opportunity Program Accounts

Section 115 of the State Finance Law authorizes the State Comptroller to establish cash advances when, in the judgement of the State Comptroller, such an account is necessary and proper to achieve the purposes of the appropriation for which the advance account was established.

In report SU 95-1 SUNY's Office of the University Auditor characterized the current vouchering procedures for EOP payments as "outdated and cumbersome," and stated that a separate bank account for processing both direct and deferable student expenditures is no longer necessary. The University Auditor's Office concluded by recommending that University management revise EOP fiscal procedures and consider a

payment process similar to that used for Federal student aid funds. In response to that report, the University's Office of Special Programs, which is responsible for administering EOP, agreed to undertake a review and revise the payment process for EOP transactions.

After confirming our understanding of the report with the University Auditor's Office, we contacted the Office of Special Programs to evaluate the status of implementation of the Office of the University Auditor's recommendation and to provide them an opportunity to comment. As of the completion of our audit fieldwork in February 1996, procedures had not been revised. However, a review process has begun as a result of our inquiries. SUNY officials told us implementation of the University Auditor's audit recommendation had been delayed until they had further evaluated the impact on the campuses and students. Until this issue is resolved, advance account funds remain outstanding that could be returned to the State Treasury.

Utilization of Quick Pay

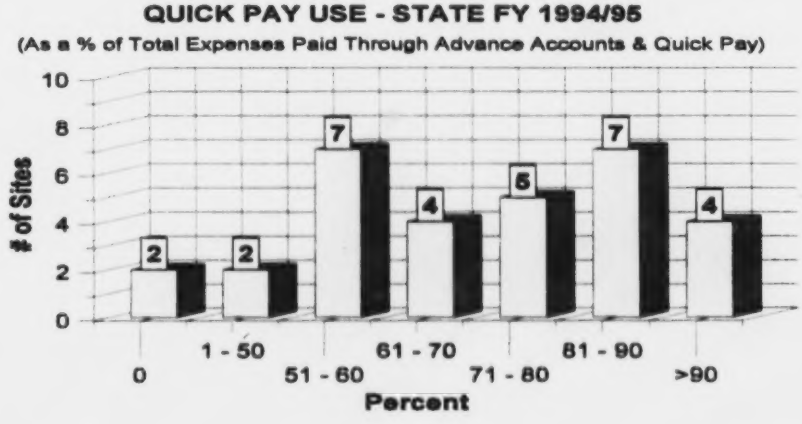
The Quick Pay Program was created to increase the efficiency in processing high volume, low dollar invoices. Therefore, to maximize operational efficiency, advance accounts should be used only where they are necessary and Quick Pay cannot be used.

We found that SUNY could use Quick Pay more often. SUNY officials state that SUNY has been an aggressive user of Quick Pay as usage has increased from $734,000 to over $65 million over the past four years. However, at four of the locations that we visited, we found that there were a significant number of transactions during our audit period that were processed through advance accounts but could have been processed though Quick Pay. Officials at three of the four locations we visited told us that they process all purchases under $250 (the advance account transaction limit) through advance accounts as standard procedure. Of the three, two told us that this procedure was implemented per the instructions received from Office of the University Controller, as discussed previously in this report.

To assess the potential for increased use of Quick Pay throughout SUNY, we analyzed the level of small dollar purchases at all 31 sites by comparing the level of expenses processed through Quick Pay to total expenses processed through Quick Pay and advance accounts. We found a wide range of Quick Pay use among SUNY locations, indicating greater use of that payment mechanism is possible and less reliance could be placed on advance accounts. For example, two campuses, Purchase and Maritime, do not use Quick Pay at all. In contrast, Syracuse uses

Quick Pay for over 95 percent of its small dollar purchases. The following graph illustrates the results of our analysis.

This graph shows that a significant opportunity exists to increase the use of Quick Pay at many of the campuses. Maximizing the use of Quick Pay is important because it can cost significantly more to routinely transact business through the advance accounts rather than through Quick Pay. For example, using information provided by campus officials, we estimate it costs more than twice as much in terms of personal service, on average, to process a transaction through an advance account at Binghamton and Potsdam than through Quick Pay. We also noted that permanent, electronic records of advance account transactions are not maintained for most SUNY locations. Conversely, the Quick Pay process does offer this opportunity as OSC maintains an electronic record of each transaction processed though Quick Pay. Electronic records would strengthen internal controls by providing an opportunity to analyze expenditures. Because SUNY has not maximized its use of Quick Pay, SUNY's Business Offices may not be operating as efficiently as possible.



Appropriateness of Advance Account Expenditures

Both OSC and SUNY guidelines prescribe a limit of $250 for advance account expenditures and provide descriptions of what types of expenses are/are not allowable for payment through advance accounts. We reviewed advance account expenses at the six SUNY locations we visited during our audit fieldwork. With the exception of SUNY Purchase, we found advance account expenses generally were within the rules promulgated by OSC\SUNY.

Regarding SUNY Purchase, we identified three purchases during our audit survey (which is less than a full audit) that exceeded the $250 limit. These charges included a $550 car rental and a $443 purchase of carpet, and were executed by splitting the purchases into amounts of $250 or less when entering these transactions into SUNY's Cash Advance Accounting System. We also noted one instance that indicates duties are not always adequately separated: we found about $1,200 in checks made out to the fund custodian bearing only his signature stamp. Although we did not find any of these payments to be questionable, checks made out to a party authorized to sign checks should always be reviewed and signed by another party in order to avoid risk of misappropriation.

Recommendations

To Suny System Administration

1. Maximize the use of the Quick Pay process for all eligible payments.

2. Review and revise EOP fiscal procedures as recommended by the University Auditor.

3. Review all advance account funding levels regularly and return all unnecessary advance amounts to the State Treasury.

To Suny Purchase

4. Establish adequate internal controls over advance accounts.

Major Contributors to This Report

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August 6, 1996

Mr. Robert H. Attmore
Deputy Comptroller
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Bob:

In accordance with Section 170 of the Executive Law, enclosed are our comments regarding the draft audit report on Advance Accounts, State University of New York (95-S-128).

Sincerely,

William H. Anslow
Senior Vice Chancellor
for Finance and Management

Enc.

Appendix B

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State University of New York Comments

We have the following comments regarding certain information contained in the text of the report.

Executive Summary - Audit Observations and Conclusions

(OSC) We found that advance account funding levels could be significantly reduced even though the need for those accounts has diminished.

(SU) Advance account funding levels have been reduced. Advance account allocation for the Educational Opportunity Program University-wide has been reduced by $407,000 between December 1993 and December 1995, a reduction of thirty-eight percent. An additional reduction of $173,000 was made by the campus non-EOP advance accounts over the same timeframe.

(OSC) Based on our findings, we conclude that the need for advance accounts is greatly reduced.

(SU) There are several instances where advance accounts are necessary and are the preferred method of payment, such as travel reimbursements and multiple invoice payments. The current dollar limit ($250 maximum) for quick pay travel transactions restricts the effectiveness of this payment option. Additionally, quick pay voucher documentation only provides for the identification of two invoice numbers. Consequently, campuses spend significant time and energy resolving vendor inquiries pertaining to payments that include more than two invoices. The availability of advance accounts also provides additional flexibility by offering alternative payment mechanisms which contributes to better overall efficiency for the various campus business offices.

Advance Account Funding Levels (Page 5)

(OSC) We also found some inconsistent direction from SUNY System Administration concerning advance account funds.

(SU) The University Controller's Office has continuously communicated with campuses regarding the Quick Pay process. Formal training sessions for campus personnel have been conducted and Controller's Office staff are available on a daily basis to provide immediate assistance with any campus problems that may arise. Formal communication also occurs through SUNY's network news (an on-line bulletin board that provides information pertaining to accounting transactions on a daily basis), which is automatically accessed whenever a person signs onto the on-line accounting system. In addition, the University Controller's Office has formally addressed the SUNY Accounting/Budgeting/Bursars Committee on several occasions during the audit period specifically on the subject of Quick Pay.

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Utilization of Quick Pay (Page 6)

(OSC) We found that SUNY could use Quick Pay more often.

(SU) Regarding using Quick Pay more often, SUNY has been an aggressive user of this method of payment since its inception. We were the pilot agency used to test the increase to $1,000 per transaction, and recently requested and received an increase in Quick Pay limit up to $2,500. We are also only one of four agencies currently approved for this level of use. In addition, the fact that our usage has increased from $734,000 to over $65 million over the past four years is a clear indication that the Quick Pay process is used extensively by SUNY.

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(OSC) Because SUNY has not maximized its use of Quick Pay, SUNY's Business Offices may not be operating as efficiently as possible.

(SU) Maximization of Quick Pay is a process in which SUNY has endorsed, as evidenced by our successful efforts to increase the Quick Pay limits.

Recommendations (Page 8)

To SUNY System Administration

(OSC) 1. Maximize the use of the Quick Pay process for all eligible payments.

(SU) 1. SUNY has recently negotiated an increase in the vendor quick pay limit from $1,000 to $2,500, effective March 1, 1996. This action will dramatically increase the University's usage of Quick Pay. Campuses have been advised to utilize Quick Pay to the fullest extent possible to maximize its benefits, including those payments that fall within the current cash advance limits (0-$250). With regard to processing all eligible payments through the Quick Pay process, the University contends that there are certain instances, such as travel reimbursements or multiple invoice payments, where quick pay eligible payments are more efficiently processed through alternative transactions.

(OSC) 2. Review and revise EOP fiscal procedures as recommended by the University Auditor.

(SU) 2. We agree. We are pursuing a viable alternative to the use of advance accounts and the present procedures, which will also ensure that any revisions have no negative affects for students.

(OSC) 3. Review all advance account funding levels regularly and return all unnecessary

advance amounts to the State Treasury.

(SU) 3. The University currently is involved with several alternative applications relative to "normal" purchasing practices such as the increase to the Quick Pay vendor limit and the procurement card. We would like to evaluate the effectiveness and impact of these new applications before making permanent adjustments to our existing cash advance system. Ultimately, the University will perform a review of advance account allocations and activity. Based on this review, if funding levels are determined to be in excess of operating requirements, appropriate adjustments to funding levels will be made.

The University will issue an internal control bulletin to all campuses advising that all advance accounts should be reviewed on a quarterly basis for appropriate funding levels.

To SUNY Purchase

(OSC) 4. Establish adequate internal controls over advance accounts.

(SUCP) 4. We agree.

(SU) 4. We agree with the recommendation and the College's response.